

ON MOTION OF _____, duly seconded by _____,
the following resolution was adopted by the Louisiana State Mineral and Energy Board,
to-wit:

WHEREAS, the state of Louisiana has a strong and vital interest in developing its natural resources for the benefit of its citizens; and

WHEREAS, Louisiana Revised Statute 30:129 requires the State Mineral and Energy Board, hereinafter referred to as the “board”, to take all appropriate action to assure that undeveloped or nonproducing state lands and water bottoms are reasonably and prudently explored, developed, and produced for the public good; and

WHEREAS, pursuant to Louisiana Revised Statute 30:129, the board is the body designate to award and administer mineral leases on lands and water bottoms belonging to the State or the title to which is in the public trust; and

WHEREAS, the board recognizes that it is essential to continue the growth and development of the mineral resources of the state of Louisiana in order to ensure the continued prosperity and welfare of the people of the state; and

WHEREAS, the board understands that the continued development of the mineral resources of the state of Louisiana has a significant stimulating effect on the economy of Louisiana, will create good jobs and increase the personal income to Louisiana families, will increase spending in communities throughout the state and help grow local economies, will increase the collection of taxes levied on income and ad valorem taxes levied on property and money derived from service and other secondary industries related to the oil and gas industry; and

WHEREAS, the board recognizes the state of Louisiana faces a forecasted budget deficit of approximately one point three (1.3) billion dollar for the 2010-11 fiscal year and that income generated from oil and gas exploration and production is vital to the state in order to provide funds each year for colleges and university, education, health-care programs for the poor and other state services; and

WHEREAS, Article VII, §4(D) of the 1974 Louisiana Constitution requires that twenty (20) percent of severance taxes, up to eight hundred fifty thousand dollars (\$850,000), be remitted to the parish in which the severance or production occurs; and

WHEREAS, Article VII, §4(E) of the 1974 Louisiana Constitution requires that ten (10) percent of royalties collected be remitted to the parish in which severance or production occurs; and

WHEREAS, the board recognizes the great impact on parish government tax revenues attributable to oil and gas exploration and extraction which are generated as a result of drilling and extraction activities in Louisiana; and

WHEREAS, for the five fiscal years which ended June 30, 2009, state mineral income from royalty and severance taxes distributed to the parishes totaled \$438,004,960; and

WHEREAS, the board recognizes that oil and gas exploration and production related activity, except for the Haynesville Shale, has significantly declined in the rest of Louisiana over the past several years; and

WHEREAS, the board recognizes that the discovery of the Shale Resource Plays have significantly altered the investment dynamic of oil and gas exploration activity in the state of Louisiana by shifting the majority of new well development to the northwestern part of the state. The board attaches importance to the facts that the shale is found at depths of 10,000 to 14,000 feet, that there has been an increase in the number of operating rigs in northwestern part of the state while the rig count in coastal Louisiana has decline, no dry hole has been drilled in the Haynesville Shale Play and that well and exploration companies are rapidly recovering their cost of drilling and completing each well in the Haynesville Shale Play; and

WHEREAS, the board recognizes that the data from Baker Hughes and the Louisiana Department of Conservation indicates that as of April 1, 2010, there are one hundred forty two (142) operating rigs in northwestern Louisiana compare to only thirty five (35) operating rigs in the southern part of Louisiana; and

WHEREAS, the board recognizes that the majority of the lands owned by the state of Louisiana in which it has the majority of its mineral interest are located in the coastal zone; and

WHEREAS, the board recognizes that Louisiana can serve as a national leader for the development of deep oil and gas exploration because the state has a highly-skilled and productive workforce, a hospitable business climate, and has a great heritage of oil and gas development; and

WHEREAS, the board is desirous of attracting to and keeping in Louisiana those companies capable of and engaged in the type of deep and ultra-deep drilling necessary to reach and produce from the remaining significant hydrocarbon reservoirs in Louisiana; and

WHEREAS, the board acknowledges that in South Louisiana, that out of the thirty five (35) active drilling rigs, seventeen (17) are located on land, fifteen (15) are located on inland waters and three (3) are located on offshore waters; and

WHEREAS, the board recognizes that through its aggressive management, the average royalty per acre in offshore Louisiana has been between twenty one and seven tenths (21.7) and twenty four and five tenths (24.5) percent which surpasses the minimum royalty required by Louisiana Revised Statute 30:127 of one-eighth on all oil and gas produced; and

WHEREAS, Senate Concurrent Resolution No. 146, passed by the legislature of the State of Louisiana during the 2009 regular session, requested the board to consider adopting policies which encourages the development of wells drilled to a depth of at least fifteen thousand feet true vertical depth from the surface;

WHEREAS, the board is aware of the fact that a majority of the shallow hydrocarbon production in Louisiana has been garnered in the past and that the bulk of future production may necessitate deeper drilling; and

WHEREAS, the board recognizes that it is more difficult to a drill deep well, the drilling cost of a well increases significantly with the depth of the well, and that the oil and gas exploration, development and production company bear a greater financial risk in drilling deep wells; and

WHEREAS, the board believes that financial relief made available to such companies to offset those increased costs of drilling and production, such as royalty relief, may be one means of rendering Louisiana more appealing to engage in drilling deep wells.

NOW, THEREFORE, BE IT RESOLVED, that the Louisiana State Mineral and Energy Board, in consideration of Senate Concurrent Resolution No. 146 and other factors set forth hereinabove and in order to provide an economic incentive to allow producers to invest in drilling wells in south Louisiana and in drilling wells to depths greater than a true vertical depth (TVD) of twenty thousand (20,000) feet, hereinafter referred to as “deep well”, does herein and hereby acknowledge that in order to promote the leasing of state owned lands in the Louisiana Coastal Zone and deep well drilling to the ultimate benefit to the state of Louisiana, it will provide a royalty relief incentive for any new lease granted in the Louisiana Coastal Zone which drills a well between 15,000 to 20,000 feet (TVD) and which has obtained production in paying quantities from these depths and for any new deep well drilled within the Coastal Zone and which has obtained production in paying quantities from below 20,000 feet (TVD). The board directs the office of mineral resources to provide a royalty relief incentive for a period of three (3) years from the signing of this resolution. The royalty relief incentive may be extended beyond the three year period by the board through the adoption of a new resolution. In order to accomplish the purpose set forth above, the office of mineral resources shall include as a addendum to the royalty payment provisions of any future mineral lease granted in the Coastal Zone and for any new deep well drilled after the adoption of this resolution, for a period of three (3) years, the following royalty relief incentives:

- 1.) For any new inland lease granted in Louisiana Coastal Zone after the adoption of this resolution, for which a well is drilled during the term of the Lease, to a true vertical depth (TVD) of 15,000 to 20,000 feet, a royalty relief period shall commenced on the date of first production and shall terminate three (3) years after this date or when the well stops production in paying quantities from these depths. During this royalty

relief period, the minimum acceptable royalty rate shall be set as defined below:

- a. The initial royalty relief will be at a rate of one-sixth until the production volume has reached a volume of 5 Bcfe (billion cubic feet equivalent) of Gas utilizing any method of production in the field. The production volume limit shall consist of the total number of barrels of oil (including condensate) produced plus the volume of gas (including casinghead gas) produced. The barrels of oil shall be converted to a gas equivalent utilizing a conversion factor of 1 barrel of oil per 5.8 Mcfe (thousand cubic feet equivalent) at 15.025 psia;
 - b. The secondary royalty relief will be at rate of 18.75% for the remainder of the 3 year royalty relief period;
 - c. At the end of the royalty relief period the royalty rate will be the lease royalty for the remainder of the lease term.
- 2.) If during the primary term of a lease for any inland tract a well is spud and drilled to a true vertical depth (TVD) of 20,000 feet or greater (Deep Well), the primary term may be extended to 5 years (Extended Primary Term) upon recognition by Board resolution.
- 3.) For any well drilled during the term of this lease, and completed at a TVD depth of 20,000' or greater, a royalty relief period will commence on the date of first production and terminate 5 years after this date. During this royalty relief period the royalty rate shall be set as defined below,
- a. The initial royalty relief will be at a rate of 12.5% until the production volume has reached 5 Bcfe (billion cubic feet equivalent) of Gas for the Deep Well utilizing any method of production in the field. The production volume limit shall consist of the total number of barrels of oil (including condensate) produced plus the volume of gas (including casinghead gas) produced. The barrels of oil shall be converted to a gas equivalent utilizing a conversion factor of 1 barrel of oil per 5.8 Mcfe (thousand cubic feet equivalent) at 15.025 psia;
 - b. The secondary royalty relief will be at rate of 18.75% for the remainder of the 5 year royalty relief period for the Deep Well,
 - c. At the end of the royalty relief period the royalty rate will be the lease royalty for the remainder of the lease term.

- 4.) If a well is drilled to a TVD of 25,000' or greater (Ultra Deep Well) during the primary term or extended primary term, the lease may be extended an additional 2 years upon recognition by Board resolution.

Any deep well royalty relief incentive shall only take effect when the lessee awarded the state mineral lease establishes a drilling or production unit for each particular sand, zone or formation with the Commissioner of Conservation and the deep well qualifies for the royalty relief.

Any prospective lease holder may submit a bid for a mineral lease which proffers Additional Consideration than those stated above. The board shall accept the bid most advantageous to the state and may lease upon whatever terms it considers proper.

Any prospective lease holder desiring to take advantage of the royalty relief incentive policy should do so through the regular competitive royalty bid form in the space set aside for Additional Consideration on said bid form.

To take advantage of the royalty relief incentives as set forth above, the prospective lease holder shall agree to further compensate for the adverse impacts to coastal wetlands in an amount equal to at least one hundred twenty-five percent (125%) of the habitat value of the affected wetlands, calculated in accordance with an evaluation method adopted by the Department of Natural Resources.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana, on the ____ day of _____, 2010, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Book of said Board and is now in full force and effect.

Secretary
State Mineral and Energy Board